ABSTRACT

Following receipt of a request from the United States Trade Representative (USTR) on September 16, 2002, the U.S. International Trade Commission instituted investigation No. 332-448, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market,* under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)). As requested by the USTR, the report assesses the textile and apparel industries of certain foreign suppliers to the U.S. market with respect to their competitiveness and other factors pertinent to their adjustment to the final completion of the phaseout of quotas on January 1, 2005, as required by the Uruguay Round Agreement on Textiles and Clothing (ATC). The foreign suppliers are (1) significant ATC suppliers to the U.S. market, (2) Mexico, and (3) other supplying countries with preferential market access.

China is expected to become the "supplier of choice" for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price. However, the extent to which China continues to expand its shipments following quota elimination in 2005 will be tempered by the uncertainty over the use by the United States of the textile-specific safeguard provision contained in China's WTO protocol of accession. To reduce the risk of sourcing from only one country, U.S. importers also plan to expand trade relationships with other low-cost countries as alternatives to China, particularly with India, which also has a very large manufacturing base for textiles and apparel and a large supply of relatively low-cost skilled labor. One or two other low-cost exporting countries in South Asia--Bangladesh or Pakistan--are expected to emerge as major suppliers for a narrower but still significant range of goods. Some U.S. importers indicated they would also consider CBERA countries, particularly those located in Central America, as a major source of supply if a Central American or hemispheric free-trade agreement is negotiated that allows the use of third-country fabrics. In the ASEAN region, the only countries considered competitive as major alternate suppliers to China or India are Vietnam and, to a lesser extent, Indonesia. However, although both countries have an abundant supply of low-cost labor, Vietnam will not be eligible for quota elimination until it becomes a WTO member, while Indonesia is considered somewhat risky because of its political and social unrest.

Although many countries may see their share of the U.S. market decline, a large number of countries likely will become second-tier suppliers to U.S. apparel companies and retailers in niche goods and services. As U.S. firms strive to balance cost, flexibility, speed, and risk in their sourcing strategies, they will look to the second-tier suppliers to meet those needs not met by the first-tier suppliers. Regardless of the outcome of any regional free-trade agreements, the production of certain goods likely will remain in Mexico and the CBERA region to service U.S. buyers' quick turnaround or mid-season orders requirements. Turkey and Colombia also are considered capable suppliers for quick turnaround business.

The information and analysis in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under other statutory authority.